THE BANKING AND TREASURY SYSTEM OF THE UNITED STATES.

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In every department of public and private enterprise except banking, the ways and means of accomplishing beneficent results simply, speedily, and economically, have been enormously developed and improved to their very highest known efficiency. This country has taken the lead in all such things, but it is a singular fact, and one exceedingly mortifying to our pride, that its Treasury and Banking System still remains in the crude, unscientific, and wasteful condition into which it fell forty years ago, saving only that our money has been restored to the world's standard of value.

That we maintain this unique and most wasteful system is not because its deficiencies and empirical methods are not known, but because of an inertia that no patriotic and intelligent effort has been able thus far to overcome. The men in this country whose opinion on financial questions is known to be of value, are practically unanimous in condemning the system. The highest authorities in Europe are amazed that the acknowledged primacy of our people in the genius of improving and developing to its highest efficiency every appliance for advancing educational, commercial, industrial, social, and moral conditions, has not been attained in banking, that we should tolerate for a day a financial system so wasteful of resources and so threatening to stable economic conditions.

It has been declared in reports from the Committee on Banking and Currency of the House, and in public addresses by economists, that the waste to the people—without one cent's advantage

to the United States Treasury, to the banks, or to any individual —in interest on the enormous sums in the Treasury, in administering our clumsy Treasury Department, and in higher rates of discount than would prevail under proper conditions, is approximately seventy-five million dollars annually. Secretary Gage in addresses has challenged any one to controvert this statement successfully, and it has not even been questioned.

The wonderful progress of this country is in spite of, and has been in no way promoted by, our financial system. It is believed that our system intensifies, if it does not breed, monetary panics and industrial depressions. Doubt, fear, and unnecessary panic are a part of it; they inhere in it. The kinds of monetary depressions that are constantly occurring here are unknown in Europe. Panics and industrial depressions arising from natural financial causes will continue, as will blizzards and earthquakes. But nine in ten of our financial disturbances arise from a condition created by the national banking and treasury laws. It is a strange thing in finance that our banks are now under no legal obligation to maintain at a parity with gold one dollar of the paper money they issue.

Again, neither the United States Treasury nor the banks have any means of protecting a dollar of the gold they hold. The banks in England, Germany, France, and every other civilized country but ours, have a well-regulated banking system, and in it an absolutely sure means of protecting their gold.

Pierre Des Essars, Chief of the Bureau of Economics and Statistics of the Bank of France, and author of the historical survey of banking, "The History of Banking in all the Leading Nations," whose opinion is shared by every authority on banking in Europe, says in an article on American banking:

"The discount rate has a very direct effect upon the rate of exchange. By increasing it sufficiently, the bank raises the value of gold, of which it is the chief reservoir, and so decreases the demand for it; at the same time, it attracts foreign gold by affording it an opportunity for advantageous investment in commercial paper paying a high rate of interest. These effects always follow as here indicated, but only on condition that the banks of issue are sufficiently powerful (in the head institution) to be able to fix the discount rate. The Bank of England, the Bank of France, and the Reichsbank are in this category; their action shows the condition of the general money market, and the other banks are obliged to follow. But a very different condition of affairs arises

wherever there are several banks of about equal importance acting at cross purposes. There is then no official discount rate, no means of preventing the outflow of gold or keeping down the rate of exchange; and such is precisely the situation of the National Banks of the United States."

The law of March 14th, 1900, was the final step in the process of completing the existing system of our national banking and coinage laws. There is no further relief possible, through legislation, to the National Banking and Treasury System, except by bringing it into harmony with natural financial law:

First, by relieving the United States Treasury from the current redemption of any form of paper money—a function which is assumed by no other public treasury;

Second, by devolving upon the banks the obligation of maintaining parity between all kinds of money—a function which is normal to banks, and is required of them by law in every other country;

Third, by allowing banks to issue true bank currency, that is, currency against their general assets—which is one of the chief functions of banks of deposit, loan, and discount, and is performed by banks in every other country;

Fourth, by securely uniting all the commercial banks in the country, through the existing clearing-houses, into a solid union to maintain parity, by crowning them with a National Clearing House, but leaving them in as independent a position as now for every other purpose.

Nearly every person urging the reform of our Treasury and Banking System, who has submitted a bill having to do with the whole subject of financial and banking reform, has left untouched the vital errors in it. In fact, the bills which have been submitted would have injured the good in the system and made the bad worse.

The functions of a bank are:

First, to keep safely for its customers, until it is needed, the capital they do not need to-day;

Second, to make safe loans of its own capital and that of its depositors on short-time notes;

Third, to furnish to the people at all times a safe and sufficient amount of circulating notes, varying in volume, from time to time, according to the demands of trade. The doing of this

has been proven to be impossible where banks are required to buy United States bonds equal in amount to the currency issued. To require this buying of bonds is tantamount to forbidding banks to issue currency, and thus restricts the right to use banks to those persons whose operations are large enough to warrant their keeping deposits in banks and issuing checks in their business. Deposits in banks and circulating notes issued by banks against their assets, are identical in substance. Every man who has the note of a bank in his pocket has in it a deposit certificate of the bank to the amount of the note. He can go to the bank and get the amount of his deposit in legal tender money, or pass his deposit certificate (circulating note) along to the next man. In passing the bank notes along, he passes along his deposit as really as the man with a technical deposit in that bank passes his deposit along by making a check, and going to the bank and getting legal tender money for it, or by passing the check along to the next man. The truth of what has been said as to banks being forbidden to issue currency, is made apparent by the fact that the currency notes of all the national banks in the country are only 28 cents to each dollar of capital, while the currency notes of the Bank of Germany are $8.96 to each dollar of capital, and the Bank of France currency in circulation is $17.84 to each dollar of capital.

The time has now come when something must be done to correct the errors in our system, and the only course that will command the confidence of the people is to do the right thing bravely, and complete the business. It is far easier to explain and justify to the people our action in a completed work, than it is to secure their approval of a half measure.

The Act of March 14th, 1900, cleared the way for bringing our Treasury and Banking System into obedience to the natural laws of finance, as is the system of every other country. I am sure I am not stating the defects of the present system too strongly. On the foundation afforded by the many excellent features of the present national law, and by the banks and clearing-houses, our system may be made the best in the world, instead of the worst, as it is now declared to be by the Hon. James H. Eccles, the Hon. Lyman J. Gage, the Hon. Charles S. Fairchild, and the other Ex-Comptrollers and Secretaries of the Treasury, as well as by every acknowledged financial authority.

Again, it is a sound principle in legislation to legislate along the lines of least resistance, to make as few changes as possible in anything with the use of which the people are familiar, to offend the prejudices of no class of persons if the end sought can be accomplished by any other means. Every practice and the substance of every existing thing that the people are accustomed to, should be retained. But the financial institutions of the country should be unified and brought under an improved national law, and the whole made to conform to normal financial and banking principles and practice.

All responsibility for maintaining parity should be transferred from the United States Treasury to what should be the head of our financial and banking system, viz., a National Clearing House, which should, in our system, be equivalent to the official head of the banking and financial systems of France, Germany, and England, and every other first-class country. Every country in the world finds it absolutely necessary to make a head institution an integral part of its banking system, as the National Clearing House should be made,—not " a head outside of the system," as we have attempted to make the United States Treasury.

The things proposed to be done in amendment of the National Banking Law are of vital importance to the country. This question is liable to assume potential importance any day. It will surely become prominent when least expected, like every great crisis. It is our duty to settle this question wisely, while we may deal with it free from the passion and excitement of a great war; otherwise we shall have to deal with it in the midst of the disturbance of a serious crisis, and then it will probably be settled unwisely.

Under existing, empirical national law, a normal " country bank " cannot exist. The national banking act is as fatal to the existence of strictly country banks as would be a positive prohibition of them in the body of the law. There are banks in the country, but they are obliged to use city methods, and to do their business as if under city conditions. That a " country bank " does not and cannot exist is certain. Country banks such as existed in 1860 would furnish now circulating notes to one-quarter of our people, who occupy one-half of the territory of the country. These banks were as sound in their methods, except in not currently redeeming their currency in large commercial

centres, and as safe, in most of the States, as national banks are to-day. For a quarter of a century previous to 1862, all banks in the New England States issued circulating notes against their general assets, to the amount of their capital. They currently redeemed these notes in Boston, as well as over their own counters. No banks ever existed that served the people more safely and efficiently than they, or that gave proportionately lower rates of discount. Our national banks should be allowed the same right of issuing true bank currency that the New England banks then enjoyed. It is passing strange that the Government should insist upon forbidding to banks the exercise of this natural function, in view of its being so successfully used by banks in every other country—and in this country, as has been said, in the New England States and most of the others, for a quarter of a century. Is there one man who will venture to assert that the Bank of Germany is not in as safe a position, in case of a monetary panic, with nine dollars of currency and three dollars of deposits to each dollar of capital, as it would be with three dollars of currency and nine dollars of deposits to each dollar of capital? Can any one successfully maintain the proposition that the Bank of France, in case of a monetary panic, with eighteen dollars of currency issued against its assets and four dollars of deposits, is not in a far safer position than it would be had it only four dollars of currency in circulation and eighteen dollars in deposits to each dollar of capital? Will any one dispute the general proposition that banks, in case of a panic, are far safer with any amount of circulating notes outstanding issued against their assets, however large, than with the same amount of deposits, in view of the fact that, in every country, depositors clamor for their money in case of a panic, while holders of the currency hoard it and clamor for more of the currency obligations of the banks? It is the experience of every country that, instead of the solvency of the banks being threatened by holders of currency, it is the depositors who embarrass it in case of a panic. A bank is strengthened by an increased demand for its circulating notes.

Again I quote Pierre Des Essars, who says:

> "After a thorough study of this question, I have arrived at the conclusion that the true bank note is unknown in the United States. . . . Side by side with the Treasury, which has transformed itself into a bank of issue, to the serious detriment of the whole system of circulation, are

the National Banks. Their right of issue is wholly illusory, because their notes represent United States bonds, that is, a debt of the state; and because the volume of their circulation is regulated by a fixed limitation, without regard to the needs of commerce or the wants of the money market. Such a combination is entirely lacking in elasticity; besides, the restrictions are so severe that the issue of notes is really a burden to the banks."

To realize what great injustice is being done to at least one-quarter of the people of the country, who inhabit more than one-half the area of the United States, we must compare the accommodations that were furnished the people by state banks in 1860, poor as they were, with those furnished by the national banks of 1900. There is not the slightest difficulty in granting those people, under our national law, every facility of banking that they enjoyed from 1840 to 1860 under state law. It is susceptible of absolute proof that the people in rural districts are either absolutely deprived of all banking privileges, or are made to pay fifty to one hundred per cent. more than normal rates, because of abnormal conditions which are wholly caused by the unnecessary restrictions of the national law upon the issuing of currency. If the law is amended, it should be so done that each bank will be as independent as it is now, except that it shall be united with all others for doing the one thing necessary, viz., maintaining the parity of all kinds of money.

Financial panics should be made impossible, excepting from industrial depressions, as they are impossible to-day in France or Germany. The normal workings of the banking systems in those countries check and alleviate a panic immediately upon its inception. They do not have a panic unless it be initiated by an aggravated industrial situation, arising from very great over-production or under-consumption, as you may choose to express it, and such panics are minimized.

Again, the amendments to the present law should be so written as to balance equally, as far as it is possible to do so, the powers of the people over the banks—represented in the President, the Secretary of the Treasury, and the Comptroller of the Currency—and the powers of the banks themselves in combination, in managing the National Clearing House. It has been proven that a certain degree of unity of all banks in a country is absolutely necessary to sound banking, in the present state of civilization. The law should be so amended as to put the United States Govern-

ment practically into the same necessary relations with the banks in the United States as the Government of England maintains with the Bank of England, the Government of Germany with the Bank of Germany, the Government of France with the Bank of France, only substituting a National Clearing House for the United States Treasury. The security of the people (that is, of the United States Treasury), in dealing with the National Clearing House, would be the total banking capital of the whole country. The failure of the National Clearing House would be as impossible as the destruction of the whole body of the American people.

All of the northern States are now so thoroughly filled with manufacturing and mining, that a comparison of those States with the agricultural portions of the country, now and in 1860, cannot be fairly made. The southern States are practically in the same condition, as to the occupations of their people—or they were when the census of 1890 was taken—as in 1860. The figures are given on pages 234 and 235 of the "Hearings before the Banking and Currency Committee of 1898-99." It is just as certain as anything can be that cannot be absolutely proven, that the States of Alabama, Georgia, Kentucky, Louisiana, Missouri, North Carolina, South Carolina, Tennessee, and Virginia, are about $300,000,000 short of the banking funds they would be using to-day, if proper legislation had been passed by Congress allowing the issue of asset currency under national law, under proper restrictions, any time between the close of the War and 1870. Their personal property, *per capita,* is larger to-day than it was then. What is true of them is true of all the agricultural sections of the country.

Nine loans in ten made by all bankers are what are known as "character loans"—that is, loans that are made because the character of the man borrowing is thoroughly known to the lender. Not one in a thousand of the men financially responsible, living in the country districts, is personally known to capitalists or bankers in the cities.

The grievous oppression inflicted by the National Bank Act upon a very large portion of the eighty million people in this country cannot be realized, except by giving longer time and more patience to comparing it with the systems of France, Germany, England, etc., and with the Suffolk banking system of

the New England States from 1840 to 1862, than most people can be induced to give. It is more influential in depopulating country districts, by sending people into cities, than any other single law ever enacted by Congress. Not a business enterprise can live that does not have the friendship and confidence of the managers of some bank. Some bank is potentially a "special partner" in every business undertaking, furnishing a very large share of the capital in it, in discounting commercial notes. A man can borrow only of persons to whom he is personally known. As normal banks cannot exist in the country, every man who wishes to enter into the business of manufacturing, in large or small degree, and to employ his neighbors, must move into some city and take his neighbors with him, that he may thus secure the special partner absolutely necessary to him, viz., a bank; and a bank, as I have said, cannot exist in the country unless it may issue currency against its assets. In no other cities in the world have the citizens such an unfair and oppressive advantage over their fellows in the country districts in securing bank discounts, as in this country. This practical inhibition of country banks is of no advantage to the cities. Doubling the rate of discount in country districts does not lower the rate in cities by the smallest fraction, but it gives the citizens of cities a monopoly of opportunity to do business. Make all the changes suggested in the banking law, and the rates of interest or discount will be surely reduced in the country districts from one-third to one-half, and the rates in the cities will not be increased by a farthing. The law, as it now works, is one of oppression to the country districts, pure and simple, with no advantage to the cities.

I have carefully examined the official figures to verify the statements made in this article; and I have the authority of the most thoughtful and patriotic men in the whole body of financiers to justify such of my statements as are not furnished by the Treasury Department, or are not matters of calculation.

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